UTAH SCHOOL BOARDS RISK MANAGEMENT MUTUAL INSURANCE ASSOCIATION

Financial Statements
and
Independent Auditors' Report

June 30, 2006 and 2005

UTAH SCHOOL BOARDS RISK MANAGEMENT MUTUAL INSURANCE ASSOCIATION

CONTENTS

LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Utah School Boards Risk Management
Mutual Insurance Association

We have audited the accompany basic financial statements of **Utah School Boards Risk Management Mutual Insurance Association** as of June 30, 2006 and 2005 for the years then ended, listed in the foregoing table of contents. These basic financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. The Association is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of **Utah School Boards Risk Management Mutual Insurance Association** as of June 30, 2006 and 2005 and the results of its operations and its cash flow for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the basic financial statements, the Association adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statement and Management's Discussion and Analysis—for State and Local Governments: Omnibus,* and GASB Statement No 38, *Certain Financial Statement Note Disclosures,* in fiscal year 2003, effective July 1, 2002. Effective July 1, 2005, the Association adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures.*

The Management's Discussion and Analysis is not a required part of the basic financial statements of the Association, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information as listed under the heading of Required Supplementary Information in the accompany table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Association, but is supplementary information required by the Governmental Accounting Standards Board.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2006, on our consideration of the Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Larson & Company

Sandy, Utah
August 14, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

UTAH SCHOOL BOARDS RISK MANAGEMENT MUTUAL INSURANCE ASSOCIATION

Management's Discussion and Analysis
June 30, 2006

COMPANY BACKGROUND

Utah School Boards Risk Management Mutual Insurance Association is a Utah domiciled casualty insurance company licensed in Utah only. The Association markets and services workers' compensation for employees of school districts.

The Association was organized in 1994 under the Interlocal Cooperation Act in Chapter 13 of Title XI of the Utah Code. The Association is classified as a Public Agency Insurance Mutual. They began insuring worker's compensation insurance for employees of school districts in the State of Utah on February 1, 1995.

The management of the Association does not expect to expand its operations into other states and no new coverages are anticipated at this time. As new opportunities present themselves, and as financial conditions permit, the Association will review and consider those opportunities.

The following financial statements are presented for the fiscal year beginning July 1, 2005 and ending June 30, 2006.

Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the Association's finances, in a manner similar to private-sector business.

The statement of net assets presents information on all of the Association's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Association is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities results in increased net assets, which indicates an improved financial position.

The statement of revenues and expenses and changes in net assets presents information showing how an agency's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. The revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

UTAH SCHOOL BOARDS RISK MANAGEMENT MUTUAL INSURANCE ASSOCIATION

Management's Discussion and Analysis
June 30, 2006

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The following discussion of the current financial position and condition of the Association by management is intended to supplement the basic financial statements and notes to basic financial statements.

FINANCIAL POSITION

Assets

The total assets at June 30, 2006 were **$9,331,008** compared with $7,931,584 at June 30, 2005.

The Association maintains a conservative investment policy. As a public entity, the Association must adhere to the Utah Money Management Act; therefore, all investments are exclusively in the Utah Public Treasurer's Investment Fund, which has the lowest risk on any securities offered. The investments on deposit with the Utah Public Treasurer's Investment Fund are available on a daily basis to meet claims and expenses.

Premium income has historically covered the Association's needs for cash to pay claims and expenses. Management expects the positive cash flow to continue.

Liabilities

The total liabilities at June 30, 2006 were **$6,196,467** compared with $5,382,948 at June 30, 2005.

Aggregate reserves for losses and loss adjustment expenses at June 30, 2006 totaled **$5,691,519**, an increase over prior year of $365,764. The increase is due primarily to claims for the fiscal year ended June 30, 2006 and corresponds to the increase in premiums for the year.

Net Assets

Net assets at June 30, 2006 have increased to **$3,134,541** compared to $2,548,636 at the end of 2005.

The maximum risk taken by the Association is $350,000 per claim.

UTAH SCHOOL BOARDS RISK MANAGEMENT MUTUAL INSURANCE ASSOCIATION

Management's Discussion and Analysis
June 30, 2006

Condensed Statement of Net Assets

	2006	2005	Net Change
Assets:			
Current and other assets	**$ 9,304,227**	$ 7,904,661	$ 1,399,566
Capital assets	**26,781**	26,923	(142)
Total assets	**$ 9,331,008**	$ 7,931,584	$ 1,399,424
Liabilities:			
Current and other liabilities	**$ 6,148,162**	$ 5,350,257	$ 797,905
Long-term liabilities	**48,305**	32,691	15,614
Total liabilities	**6,196,467**	5,382,948	813,519
Net assets:			
Contributed capital	**652,858**	652,858	-
Invested in capital assets, net of related debt	**26,781**	26,923	(142)
Unrestricted	**2,454,902**	1,868,855	586,047
Total net assets	**3,134,541**	2,548,636	585,905
Total liabilities and net assets	**$ 9,331,008**	$ 7,931,584	$ 1,399,424

RESULTS OF OPERATIONS

Net Revenue

All revenue comes from premiums paid by participating school districts, the processing of claims for self-insured school districts and from income earned on investments which is expected to continue.

Revenues increased in 2006 due to an increase in premiums of 4.50% due to a rate increase and the addition of processing claims for Granite School District, a self-insured school district, for the entire year.

Condensed Statement of Revenues

	2006	2005	Net Change
Revenues:			
Premiums	**$ 3,642,792**	$ 3,486,227	$ 156,565
Investment income	**409,327**	213,195	196,132
Administrative and other income	**162,250**	117,250	45,000
Total revenues	**$ 4,214,369**	$ 3,816,672	$ 397,697

Benefits and Expenses

The increase in benefits and expenses of approximately 3.5% relates to the increase in premiums as well as having positive experience on closing out prior year claims.

The Association is actively monitoring losses along with implementing safety programs throughout the school districts.

Condensed Statement of Expenses

Benefits and expenses:	2006	2005	Net Change
Losses and loss adjustment expenses	**$ 2,655,432**	$ 2,729,216	$ (73,784)
Other operating expenses	**973,032**	777,599	195,433
Total benefits and expenses	**$ 3,628,464**	$ 3,506,815	$ 121,649

Change in Net Assets

Change in net assets for 2006 was **$585,905**. This is up from prior years due to the positive claims experience at the end of the year as well as the increase in investment income due to higher interest rates on investments. The rate at the end of 2006 in the Utah Public Treasurer's Investment Fund was 5.0079%.

Condensed Statement of Changes in Net Assets

Revenues and expenses:	2006	2005	Net Change
Revenues	**$ 4,214,369**	$ 3,816,672	$ 397,697
Expenses	**3,628,464**	3,506,815	121,649
Net income	**585,905**	309,857	276,048
Net assets, beginning of year	**2,548,636**	2,238,779	309,857
Net assets, end of year	**$ 3,134,541**	$ 2,548,636	$ 585,905

UTAH SCHOOL BOARDS RISK MANAGEMENT
MUTUAL INSURANCE ASSOCIATION

Management's Discussion and Analysis

June 30, 2006

ACTUAL RESULTS VERSUS BUDGET AMOUNTS

A final budget was approved and adopted in the June 2006 board meeting. Revenues were above budgeted amounts and expenses in total were below budgeted amounts. The following table summarized the differences between the budget amounts and actual results.

	Actual Amounts	Budgeted Amounts	Variance
Revenue:			
Premiums	$ 3,642,792	$ 3,600,000	$ 42,792
Interest income	409,327	236,000	173,327
Administrative and other income	162,250	167,000	(4,750)
Total revenue	4,214,369	4,003,000	211,369
Benefits and expenses:			
Losses and loss adjustment expenses	2,655,432	3,079,000	(423,568)
Other operating expenses	973,032	909,600	63,432
Total benefits and expenses	3,628,464	3,988,600	(360,136)
Change in net assets	585,905	14,400	571,505
Net assests, beginning of year	2,548,636	2,548,636	-
Net assets, end of year	$ 3,134,541	$ 2,563,036	$ 571,505

CASH FLOW AND LIQUIDITY

Liquidity

All of the Association's investments are invested in the Utah Public Treasurers' Investment Fund. All investments are reviewed quarterly by the State Auditor's Office. All assets are readily available to meet the Association's foreseeable business needs.

Cash Flow

The Association's primary source of funds is premium income. Its primary use of funds is the payment of losses and loss expenses. Cash from operations exceeded the need for cash for operations. There are no known demands likely to cause material changes in this cash flow pattern.

Capital Expenditures

There are no material commitments for additional capital expenditures for which our current cash flow could not provide.

Expected Trends

The budget for the year 2007 has been approved by the Board of directors and reflects a change in net assets of approximately $24,000. Total income is budgeted at 12% over 2006 actual total income which is attributable to a rate increase of 3.3% for the entire pool plus an increase in the interest rates in the PTIF. Total benefits and expenses are budgeted at 30% over 2006 actual total benefits and expenses.

Requests for Information

This financial report is designed to provide a general overview of the Association's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Utah School Board Risk Management Mutual Insurance Association, 9085 South 860 East, Sandy, UT 84094.

UTAH SCHOOL BOARDS RISK MANAGEMENT
MUTUAL INSURANCE ASSOCIATION

Statements of Net Assets
As of June 30, 2006 and 2005

ASSETS	2006	2005
Current assets:		
Cash and cash equivalents	**$ 7,779,431**	$ 6,380,460
Prepaids	**19,468**	18,873
Total current assets	**7,798,899**	6,399,333
Capital assets:		
Data processing equipment net of **$57,808** and $60,629 of accumulated depreciation, respectively	**5,818**	1,611
Furniture and equipment net of **$13,184** and $10,580 of accumulated depreciation, respectively	**20,963**	25,312
Total capital assets	**26,781**	26,923
Other assets:		
Restricted cash and investments	**1,502,828**	1,502,828
Deposit	**2,500**	2,500
Total other assets	**1,505,328**	1,505,328
Total assets	**$ 9,331,008**	$ 7,931,584

The accompanying notes to basic financial statements
are an integral part of these financial statements

LIABILITIES AND NET ASSETS	2006	2005
Current liabilities:		
Reserves for losses and loss adjustment expenses	**$ 5,691,519**	$ 5,325,755
Advance premiums	**393,676**	-
Taxes, licenses and fees payable	**62,967**	24,502
Total current liabilities	**6,148,162**	5,350,257
Postretirement benefits	**48,305**	32,691
Total liabilities	**6,196,467**	5,382,948
Net assets:		
Contributed capital	**652,858**	652,858
Invested in capital assets, net of related debt	**26,781**	26,923
Unrestricted	**2,454,902**	1,868,855
Total net assets	**3,134,541**	2,548,636
Total liabilities and net assets	**$ 9,331,008**	$ 7,931,584

UTAH SCHOOL BOARDS RISK MANAGEMENT MUTUAL INSURANCE ASSOCIATION

Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2006 and 2005

	2006	2005
Income:		
Premiums	$ 3,642,792	$ 3,486,227
Investment income	409,327	213,195
Administrative and other income	162,250	117,250
Total income	4,214,369	3,816,672
Benefits and expenses:		
Losses and loss adjustment expenses	2,655,432	2,729,216
Other operating expenses	973,032	777,599
Total benefits and expenses	3,628,464	3,506,815
Change in net assets	585,905	309,857
Net assets, beginning of year	2,548,636	2,238,779
Net assets, end of year	$ 3,134,541	$ 2,548,636

The accompanying notes to basic financial statements are an integral part of these statements.

UTAH SCHOOL BOARDS RISK MANAGEMENT
MUTUAL INSURANCE ASSOCIATION

Statements of Cash Flows
For the Years Ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Premiums received	$ 4,036,468	$ 3,332,192
Administrative fees collected	162,250	200,107
Losses and loss adjustment expenses paid	(2,289,668)	(2,454,107)
Operating expenses and benefits paid	(913,282)	(766,534)
Net cash provided by operating activities	995,768	311,658
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(6,124)	(26,250)
Net cash used by capital and related financing activities	(6,124)	(26,250)
Cash flows from investing activities:		
Interest on investments	409,327	213,195
Net cash provided by investment activities	409,327	213,195
Net increase in cash and cash equivalents	1,398,971	498,603
Cash and cash equivalents, beginning of year	6,380,460	5,881,857
Cash and cash equivalents, end of year	$ 7,779,431	$ 6,380,460

The accompanying notes to basic financial statements are an integral part of these statements.

	2006	2005
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	**$ 585,905**	$ 309,857
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**6,266**	9,982
Interest received on investments	**(409,327)**	(213,195)
Changes in assets and liabilities:		
Decrease in receivables	**-**	82,857
Increase in prepaid expenses	**(595)**	(2,886)
Increase in reserves for losses and loss adjustment expenses	**365,764**	275,109
Increase (decrease) in advanced premiums	**393,676**	(154,035)
Decrease in accounts payable	**-**	(11,858)
Increase (decrease) in taxes, licenses and fees payable	**38,465**	(16,864)
Increase in postretirement benefits	**15,614**	32,691
Total adjustments	**409,863**	1,801
Net cash flows provided by operating activities	**$ 995,768**	$ 311,658

UTAH SCHOOL BOARDS RISK MANAGEMENT MUTUAL INSURANCE ASSOCIATION

Notes to Basic Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Utah School Boards Risk Management Mutual Insurance Association was organized under the Interlocal Cooperation Act in Chapter 13 of Title XI of the Utah Code. Under Section 31A-5-215 of the Utah Insurance Code, the Association was classified as a Public Agency Insurance Mutual. The Association provides workers' compensation insurance for employees of school districts in the State of Utah.

Reporting Entity

The Association is a separate entity for financial reporting purposes. There are no component units of the Association, nor is the Association a component unit of any other entity.

Fund Accounting

The Association uses only one fund to account for its operations. The proprietary fund type (enterprise fund) is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance public policy, management control, accountability, or other purposes.

Basis of Accounting

These financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP) and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The Association's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary fund and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and the Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which base, GASB prevails. The Association adopted Governmental Accounting Standards Board Statement No 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments* (GASB Statement 34), GASB Statement No. 37, *Basic Financial statement and Management's Discussion and Analysis – For State and Local Governments: Omnibus,* and GASB Statement No. 38, *Certain Financial Statement Disclosures,* in fiscal year 2003, effective July 1, 2002.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Effective July 1, 2004, the Association adopted GASB Statement No 40, *Deposit and Investment Risk Disclosures.* With the implementation of these statements, the Association has prepared required supplementary information titled 'Managements' Discussion and Analysis' which precedes the basic financial statements, has prepared a balance sheet classified between current and noncurrent assets and liabilities, has categorized net assets as invested in capital assets and unrestricted, has prepared the statements of cash flows on the direct method, and provided additional schedules to better communicate the financial status of the governmental entity.

The accounting policies of the Association conform to accounting principles generally accepted in the United States of America in all material respects. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund and Other Governmental Entities That Use Proprietary Fund Accounting*, the Trust has opted to apply all pronouncements issued by the Financial Accounting Standards Board ("FASB") after November 1989, unless the FASB pronouncements conflict with or contradict GASB pronouncements. The following is a summary of the more significant of such policies.

The Association reports as a single enterprise fund and uses the accrual method of accounting and the economic resources measurement focus. Under this method, revenues are recognized when they are earned and expenses are recognized when they are incurred. Advance premiums are recorded for billings sent in 2006 for 2007 premiums.

Budgets

Annual budgets are prepared and adopted, in accordance with state law, by the Association's board on or before June 30th for the following fiscal year beginning July 1. Budgets may be increased by resolution of the Association's Board at any time during the year. A public hearing must be held regarding any proposed increase.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from these estimates.

Major estimates of the Association include the reserves for losses and loss adjustment expenses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments with maturities of three months or less to be cash equivalents. Therefore, the investment in Utah Public Treasurers' Investment Fund and cash on deposit are considered to be cash equivalents.

Restricted Cash and Investments

The deposit held jointly with the Utah Labor Commission is considered to be restricted cash and investments.

Capital Assets

Capital assets are defined by the Association as assets with an initial cost of more than $5,000. Capital assets are stated at cost less accumulated depreciation. Depreciation of furniture and electronic data processing equipment is provided over the estimated useful lives of the assets on the straight-line method. Useful lives vary from three to seven years.

Maintenance and repairs, which do not materially extend the useful lives, and minor replacements, are expensed as incurred.

Reserves for Losses and Loss Adjustment Expenses

The reserves for losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount based on past experience for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes that amounts are adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined.

Premiums

Premiums are earned over the terms of the related insurance policies and reinsurance contracts.

Income Taxes

The Association is exempt from the payment of income taxes under Section 115 of the Internal Revenue Code.

2. CASH AND CASH EQUIVALENTS

Listed below is a summary of the cash and cash equivalents as of June 30, 2006 and 2005. Investing is governed by the prudent man rule in accordance with statues of the State of Utah. All investments of the Association are considered to have been made in accordance with these governing statues.

Cash and Cash Equivalents

Cash and cash equivalents of the Association are carried at cost. The carrying amount of the cash on deposit, net of outstanding checks, is **$96,233** and $155,454, as of June 30, 2006 and 2005, respectively. The corresponding bank balance of the deposits was **$210,414** and $193,760 as of June 30, 2006 and 2005, respectively. As of June 30, 2006 and 2005, **$100,000** and $100,000 of the Association's cash on deposit was insured by the FDIC.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2006 and 2005, the Association had amounts over FDIC insurance of **$110,414** and $93,760.

As of June 30, 2006 and 2005, the Association's cash and cash equivalents and investments included the following:

	2006	**2005**
Cash on deposit	**$ 96,233**	$ 155,454
Utah Public Treasurer's Investment Fund - held by the Association	**7,683,198**	6,225,006
Total cash and cash equivalents	**$ 7,779,431**	$ 6,380,460

The Association is required to follow the requirements of the Utah Money Management Act, Section 57-7, *Utah Code Annotated, 1953*, as amended, in handling its depository and investment transactions. This law requires that investment transactions be conducted through qualified depositories and stipulates the types of securities allowable as acceptable investment transactions. Management believes the Association was in compliance with the Utah Money Management Act during the years ended June 30, 2006 and 2005.

2. CASH AND CASH EQUIVALENTS (Continued)

The Public Treasurers' Investment Fund (PTIF) is a pooled investment fund enabling public agencies to benefit from the higher yields offered on large denomination securities. The PTIF is similar in nature to a money market fund, but is subject to the Money Management Act and Rules of the Money Management Council. The PTIF invests in corporate debt, U.S. Agency notes, certificates of deposit and commercial paper. The maximum final maturity of any security invested in by the PTIF is limited to five years. The maximum weighted average life of the portfolio is limited to 90 days. There is no maturity date on an insurer's investment in the PTIF. PTIF deposits are not insured or otherwise guaranteed by the State of Utah. Participants in the PTIF pay an administrative charge on an annual basis based on the average account balance. The PTIF is operated as a service to local governments and does not generate a profit to the Utah State Treasurer.

3. RESTRICTED INVESTMENTS

A total of $1,502,828 is being held jointly with the Department of Labor in the Utah Public Treasurers' Investment Fund as of June 30, 2006 and 2005.

4. CAPITAL ASSETS

The capital assets of the Association are as follows:

	2006			
	Balance at 7/1/05	Additions	Retirements	Balance at 6/30/06
Capital assets:				
Data processing equipment	$ 62,240	$ 6,124	$ (4,739)	$ 63,625
Furniture and equipment	35,892	-	(1,745)	34,147
Total	98,132	6,124	(6,484)	97,772
Less accumulated depreciation:				
Data processing equipment	(60,629)	(1,917)	4,739	(57,807)
Furniture and equipment	(10,580)	(4,349)	1,745	(13,184)
Total	(71,209)	(6,266)	6,484	(70,991)
Net capital assets	$ 26,923	(142)	$ -	$ 26,781

4. CAPITAL ASSETS (Continued)

	2005			
	Balance at 7/1/04	Additions	Retirements	Balance at 6/30/05
Capital assets:				
Data processing equipment	$ 77,132	$ -	$ (14,892)	$ 62,240
Furniture and equipment	49,600	26,250	(39,958)	35,892
Total	126,732	26,250	(54,850)	98,132
Less accumulated depreciation:				
Data processing equipment	(66,481)	(9,040)	14,892	(60,629)
Furniture and equipment	(49,596)	(942)	39,958	(10,580)
Total	(116,077)	(9,982)	54,850	(71,209)
Net capital assets	$ 10,655	$ 16,268	$ -	$ 26,923

Depreciation expense for the years ended June 30, 2006 and 2005 amounted to **$6,266** and $9,982, respectively.

5. RELATED PARTY TRANSACTIONS

During 1998, the Association entered into an agreement with Davis County School District to administer workers' compensation claims. For the years ended June 30, 2006 and 2005, the Association received $66,000 pursuant to this agreement each year.

During 2003, the Association entered into an agreement with Weber County School District to administer workers' compensation claims. For the years ended June 30, 2006 and 2005, the Association received $22,000 pursuant to this agreement each year.

During 2005, the Association entered into an agreement with Granite School District to administer workers' compensation claims. For the years ended June 30, 2006 and 2005, the Association received **$79,000** and $32,917 pursuant to this agreement, respectively.

The Association is obligated under a lease agreement with Utah School Boards Association for office space. The lease term expires June 30, 2008 and can be renewed for another three years. Minimum lease payments under the lease amount to $100,000. Rent expense for the years ended June 30, 2006 and 2005 totaled **$50,000** and $39,219, respectively.

The Association also entered into an agreement with Utah School Boards Association for one-half full time equivalent employee and accompanying support staff to assist in the management and operations of the Association as well as the sharing of various office machines. For the year ended June 30, 2006 and 2005, the Association paid **$37,298** and $20,000, respectively, pursuant to this agreement.

6. REINSURANCE

The Association has entered into a reinsurance agreement with Safety National Casualty Corporation for excess of loss per occurrence coverage for workers' compensation insurance. The agreement calls for coverage of up to $1,000,000 and specific coverage up to statutory limits with a retention of $350,000.

Estimated claims loss liabilities are stated net of estimated losses applicable to reinsurance ceded to other insurance companies. However, the Association is contingently liable for those amounts in the event such companies are unable to pay their portion of the claims.

Reinsurance Recoverable in Dispute

The Company does not have any disputed balances or uncollectible funds.

7. RETIREMENT PLAN

The retirement plan for employees of the Association is funded by the Association. The employees are covered under multiple-employer, public employee retirement systems administered by the State Retirement System. This plan is noncontributory and includes a 401(k) plan. The Association contributed **14.88%** and 13.20% of employee's salaries under the plans for the years ended June 30, 2006 and 2005, respectively. During the year ended June 30, 2006 and 2005, the Association contributed **$61,528** and $41,236 to the plans, respectively.

8. POSTRETIREMENT BENEFIT OBLIGATION

The Association sponsors a postretirement benefit obligation for all employees. The obligation provides for the Association to pay two years of group couple medical premiums for employees retiring with a minimum of 10 years service but less than 15 years of service, four years of group couple medical premiums for employees retiring with a minimum of 15 years service but less than 20 years service, and five years of group couple medical premiums for employees retiring with a minimum of 20 years service. Group couple medical premiums are covered up to the maximum of the years listed above or when the retiree is eligible for Medicare coverage, which ever occurs first.

There is currently one active participant with an accumulated postretirement benefit obligation of **$48,305** and $32,691 as of June 30, 2006 and 2005, respectively, who reached the minimum service period for postretirement benefits in the 2005. Current year service and interest costs are **$3,269** and $3,285 and **$781** and $156, respectively, as of June 30, 2006 and 2005. Prior year service and interest costs expensed in the 2005 instead of being amortized over the remaining ten years of average service period were $32,691. Total postretirement benefit expense was **$15,614** and $32,691, respectively, for the year ended June 30, 2006 and 2005. The plan is unfunded. The medical trend rate was assumed at 5.5%.

9. CONTINGENCIES

The Association is subject to litigation from the settlement of claims contested in the normal course of business. Losses from the actual settlement of such unknown claims are taken into consideration in the computation of the estimated claims liabilities.

10. UNPAID CLAIMS, LOSSES AND LOSS ADJUSTMENT EXPENSES

	2006	2005
Balance at July 1 (in thousands)	**$ 5,325**	$ 5,050
Incurred, related to:		
Current year	**2,754**	2,624
Prior year	**(693)**	(524)
Total incurred	**2,061**	2,100
Paid, related to:		
Current year	**756**	761
Prior year	**939**	1,064
Total paid	**1,695**	1,825
Balance at June 30	**$ 5,691**	$ 5,325

REQUIRED SUPPLEMENTARY INFORMATION

UTAH SCHOOL BOARDS RISK MANAGEMENT
MUTUAL INSURANCE ASSOCIATION
Schedule of Ten-Year Claims Development Information

The following table illustrates how the Association's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Association as of the end of each of the past ten years. The rows of the table are defined as follows: (1) This line shows each fiscal year's net earned premiums, other operating revenues and interest income. (2) This line shows each year's other operating expenses including overhead and loss adjustment expenses not allocable to specific claims. (3) This line shows incurred losses and allocated loss adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. (4) This section of ten rows shows the cumulative amounts paid as of the end of successive years for each policy year. (5) This section of ten rows shows how each policy year's net incurred claims increased or decreased as of the end of the successive years: this annual estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and show whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

	Fiscal and Policy Year Ended (In Thousands of Dollars)									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
(1) Earned premiums, other operating operating revenues and investment revenues, net of reinsurance							3,042	3,496	3,816	4,214
(2) Unallocated expense							764	711	777	973
(3) Estimated incurred claims and expenses, end of policy year:	1,131	987	684	649	1,223	1,053	1,189	1,444	1,372	1,597
(4) Net paid (cumulative) as of:										
End of policy year	314	344	314	286	472	427	547	485	761	756
One year later	878	618	699	539	952	860	995	1,108	1,333	
Two years later	1,023	759	794	618	1,079	1,071	1,097	1,218		
Three years later	1,131	799	847	651	1,121	1,280	1,154			
Four years later	1,226	812	867	732	1,144	1,377				
Five years later	1,276	934	900	752	1,200					
Six years later	1,402	947	916	758						
Seven years later	1,456	975	928							
Eight years later	1,473	991								
Nine years later	1,476									
(5) Reestimated net incurred claims and expenses:										
End of policy year	1,131	987	684	649	1,223	1,053	1,189	1,444	1,372	1,597
One year later	1,155	860	879	702	1,319	1,280	1,308	1,446	1,637	
Two years later	1,139	867	903	706	1,252	1,422	1,277	1,340		
Three years later	1,246	864	927	712	1,255	1,489	1,297			
Four years later	1,291	878	926	763	1,256	1,535				
Five years later	1,371	973	926	781	1,330					
Six years later	1,485	977	947	784						
Seven years later	1,548	1,012	956							
Eight years later	1,534	1,024								
Nine years later	1,528									
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	397	37	272	135	107	482	108	(104)	265	-

OTHER INDEPENDENT AUDITORS' REPORTS

LARSON & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based Upon the Audit Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Utah School Boards Risk Management
Mutual Insurance Association

We have audited the financial statements of **Utah School Boards Risk Management Mutual Insurance Association** as of and for the year ended June 30, 2006 and have issued our report thereon dated August 14, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether **Utah School Boards Risk Management Mutual Insurance Association's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Utah School Boards Risk Management Mutual Insurance Association's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the

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normal course of performing their assigned functions. We noted no matters involving the internal control over financial reported and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors and management of **Utah School Boards Risk Management Mutual Insurance Association** and the State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Larson & Company

Sandy, Utah
August 14, 2006

Independent Auditors' Report on State Legal Compliance

The Board of Directors
Utah School Boards Risk Management
Mutual Insurance Association

We have audited the financial statements of **Utah School Boards Risk Management Mutual Insurance Association** as of and for the year ended June 30, 2006, and have issued our report thereon dated August 14, 2006. As part of our audit, we have audited **Utah School Boards Risk Management Mutual Insurance Association's** compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The Association received no funding from major State assistance programs from the State of Utah.

Our audit also included test work on the Association's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Cash management
- Purchasing requirements
- Budgetary compliance
- Special districts
- Other general issues

The management of **Utah School Boards Risk Management Mutual Insurance Association** is responsible for the Association's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The Board of Directors
Utah School Boards Risk Management
Mutual Insurance Association
August 14, 2006
Page 2

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, **Utah School Boards Risk Management Mutual Insurance Association**, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

Larson & Company

Sandy, Utah
August 14, 2006